

Lancashire District Chief Auditors Group

Peer Review

Memorandum of Understanding

Version 4.0 March 2021

Introduction

The Public Sector Internal Audit Standards (PSIAS) require that an external assessment of an organisation's internal audit function is carried out once every five years by a qualified, independent assessor or assessment team from outside of the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external validation.

The Lancashire District Chief Auditors Group (LDCAG) has been exploring a ‘peer review’ process to be developed, managed and operated by the constituent authorities to meet this requirement. This process addresses the requirement of a ‘self-assessment with independent external validation’.

This Memorandum of Understanding (MoU) sets out the broad basis and methodology upon which the constituent authorities agree to participate in the scheme and how the activity will be carried out.

Constituent Authorities

The constituent authorities comprise those that make up the membership of the LDCAG, less those that have explicitly 'opted out'. The authorities taking part in this peer review are as follows;

Allerdale Borough Council Lancaster City Council

Blackpool Borough Council Preston City Council

Blackburn with Darwen Wyre Council

Burnley Borough Council

Chorley & South Ribble Council

Hyndburn Borough Council

It is the responsibility of the Head of Internal Audit (or equivalent) from each authority to seek approval for participation and communicate the purpose and methodology of the peer review process to 'those charged with governance' at their authority. This will in all likelihood include: Chief Finance Officer/Section 151; Chief Executive and/or Corporate Management Team; Chair of and/or Audit and Governance (or equivalent) Committee.

Duration of the Memorandum of Understanding

This MoU will run from 1 April 2021 to 1 May 2023, the end of the second five year period since the introduction of the PSIAS and by when each authority's internal audit section should have had their second external review. This MoU and process will be subject to formal review and updated in line with any developments or changes to the PSIAS.

Confidentiality Clause

The reviewee agrees to supply such information as may be reasonably required by the reviewers. The reviewers agree to keep this information permanently confidential. This information may be made available only to other parties involved in the Moderation process who are also bound to keep this information permanently confidential. Such information may not be used unless in direct connection with the purpose of providing a peer review.

Where open e-mail is used to transfer documents this should be via an encrypted zipped (compressed) file with a password provided separately (as described by the NFI:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/757053/2018-10-05-Password-Protecting-Data-1.pdf

Any other transfers will be encrypted. The information will only be kept for the term of this memorandum and will be securely destroyed.

Governance

The overall governance of the process, methodology and delivery of the peer review process will be the responsibility of the LDCAG. The LDCAG has, for the development of the process, delegated responsibility to a peer review 'Sub-Group' made up of the heads of audit from the following authorities:

- Burnley Borough Council
- Chorley & South Ribble Council
- Hyndburn Borough Council
- Wyre
- Blackpool Borough Council

Moderation and Quality Control Process

The 'sub group' will also take on the role of the 'Moderation Team'. The Moderation Team will meet three times over the period of the assessments; (September 2021, October 2022 and April 2023). The purpose of the moderation will be to ensure that consistency has been applied between the individual peer review teams across the region and to also ensure that the assessments have been evidence based, even handed and fair.

The moderation team will also discuss future peer reviews, with a view to improving the process based on lessons learnt in previous peer reviews, this may include making changes to working documents.

Cost

There is no direct cost for participating in this process. However, it should be made clear that agreement to participate does require a 'time' commitment and that 'time' as a reviewer, moderator or authority under review cannot be claimed and/or

recharged. Any authority who withdraws from this agreement after receiving their review, risks incurring any associated costs to ensure future reviews can be completed within the timescale of this MoU.

It will be for the LDCAG (or its sub group) to ensure that the 'time burden' is evenly spread with each participating authority taking its share.

Methodology

This MoU sets out a broad methodology for self-assessment with independent validation and is set out covering the three main stages of review: pre-review; on-site review; post-review. Accepting that improvement actions may have been implemented since the closure of any audit year, the review will focus on audit activity during the period covered in the latest Head of Internal Audit Annual Report and Opinion. For example, reviews commencing after 1 July 2021 will cover the audit year 1 April 2020 to 31 March 2021.

1. Pre-review

The authority to be reviewed and the review team will be selected and agreed by the LDCAG (or its sub-group).

An appropriate 'lead in' time, of not less than 4 weeks, will be allowed prior to any on-site review.

Each authority will be required to complete and share its self-evaluation of the Internal Audit service together with any relevant supporting evidence/documentation in advance of any review commencement. Supporting evidence must be provided using the standard templates agreed through the Moderation Team. The LDCAG has agreed that the self-assessment will use the **CIPFA Local Government Application Note (LGAN)** questionnaire. Typically, supporting hyperlinked evidence will include the Internal Audit Plan and Charter, The Head of Internal Audit Annual Report and Opinion, Quality Assurance and Improvement Programme and examples of final audit reports. A full list is shown at Appendix 1.

To support the review, a customer survey should be completed by key personnel within the authority being reviewed (to a maximum of 10 officers) namely;

- Chief Executive;
- Chief Finance Officer/Section 151;
- Monitoring Officer;
- Chair of Audit and Governance Committee (or equivalent);
- Member of the Internal Audit Team; and
- A sample of auditees.

The Head of Internal Audit from the Authority being reviewed will act as the key point of contact and will be responsible for communication, within their own authority, of the purpose and timing of the review, the provision of documentation and the facilitation of on-site activity.

2. Review

Owing to the on-going pandemic, it is highly likely the majority of the review will be completed via 'desktop' inspection. Interviews will be conducted utilising Microsoft Teams and where this is not possible and some other platform is required then the Review Team must be informed at the earliest opportunity.

NB. This arrangement will be reviewed continually through the 3 year exercise. Future reviews may revert back to 'site' visits if deemed safe and appropriate to do so.

The review cannot reasonably consider all elements of the LGAN self-assessment and the review team must use the 'desktop' period to determine strengths, weaknesses and subsequent key lines of enquiry in order that the review itself is risk-based, timely and adds real value. Each authority will be assessed against the three broad themes of: Purpose and Positioning; Structure and Resources and Audit Execution.

The focus of the three themes is as follows:

- **Purpose and positioning** – Does the internal audit service have the appropriate status, clarity of role and independence to fulfil its professional remit?
- **Structure and resources** – Does the internal audit service have the appropriate structure and resources to deliver the expected service?
- **Audit execution** – Does the internal audit service have the processes to deliver an effective and efficient internal audit service?

The key considerations under each theme together with an alignment against each theme of the self-assessment checklist are detailed in Table 1 below.

Table 1: Alignment of the model with the core areas of the Self-Assessment checklist

Purpose & Positioning	Structure & Resources	Audit Execution
<ul style="list-style-type: none"> • Remit • Reporting lines • Independence • Risk based plan • Integration with other assurance providers 	<ul style="list-style-type: none"> • Competencies to deliver IA remit • Technical training & development • Resourcing • Performance management • Knowledge management 	<ul style="list-style-type: none"> • Management of the IA function • Engagement planning • Engagement delivery • Reporting
<ul style="list-style-type: none"> • Code of ethics • 1000 Purpose, Authority and Responsibility • 1100 Independence and Objectivity • 1110 Organisational independence • 1111 Direct interaction with the Board • 1120 Individual objectivity • 1130 Impairment to independence or objectivity • 2010 Planning • 2020 Communication and approval • 2030 Resource management • 2050 Co-ordination • 2060 Reporting to Senior Management and the Board • 2100 Nature of Work • 2110 Governance • 2120 Risk management • 2130 Control 	<ul style="list-style-type: none"> • Code of ethics • 1200 Proficiency and Due Professional Care • 1210 Proficiency • 1220 Due professional care • 1230 Continuing professional development • 2030 Resource management 	<ul style="list-style-type: none"> • 1300 Quality Assurance and Improvement Programme • 1311 Internal assessments • 1320 Reporting on the QAIP • 2000 Managing the Internal Audit Activity • 2010 Planning • 2040 Policies and procedures • 2100 Nature of Work • 2120 Risk management • 2200 Engagement Planning • 2210 Engagement objectives • 2220 Engagement scope • 2230 Engagement resource allocation • 2240 Engagement work programme • 2300 Performing the Engagement • 2310 Identifying information • 2320 Analysis and evaluation • 2330 Documenting information • 2340 Engagement supervision • 2400 Communicating the Results • 2410 Criteria for communicating

Purpose & Positioning	Structure & Resources	Audit Execution
		<ul style="list-style-type: none"> • 2420 Quality of communications • 2440 Disseminating results • 2450 Overall opinion • 2500 Monitoring Progress • 2600 Communicating the Acceptance of Risks

The Review team will offer a ‘true and fair’ judgement and it is proposed that each Authority will be appraised as **Conforms**, **Partially Conforms** or **Does Not Conform** against each thematic area of the LGAN, from which an aggregation of the three themed scores will give an overall Authority score.

- **Conforms** – indicates that the internal audit service complies with all fundamental elements of the PSIAS and the majority of individual statements of good practice in all material respects
- **Partially Conforms** – indicates that the internal audit service falls short of achieving some elements of good practice but is aware of the areas for development or opportunities for improvement in delivering effective internal audit
- **Does Not Conform** – indicates that the internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many or all of the objectives and good practice statements. Such deficiencies would usually have a significant negative impact on the internal audit service’s effectiveness and its potential to add value to the organisation and would also represent significant opportunities for change.

3. Post Review

A summary report detailing key findings, suggested areas for improvement and the theme and overall scores will be prepared and issued, as draft, to the Authority under review. This stage in the process allows that Authority to correct any factual inaccuracies and, with appropriate evidence, to challenge any of the key findings. If agreement cannot be sought during these discussions, the Authority under review or the review team can seek the advice and assistance of the Moderation Team. Final reports will be issued to the Head of Internal Audit within one calendar month.

It is for the Head of Internal Audit from the Authority under review to determine the most appropriate means of communicating the results of the review to their officers and members. They can consider inviting a member(s) of the review team to present the findings at an appropriate meeting.

A cumulative spreadsheet of findings and best practice will be populated and circulated by the Moderation Team at appropriate points throughout the review process. This will be made available to all participants of the peer review process. The spreadsheet will be anonymised to avoid identification of the source

On-Going Review

This MoU, under the ownership of the LDCAG, will be subject to regular review and as a result may be subject to change. The impact of any changes will be considered as part of the moderation process.

Documents required for the PSIAS assessments

- 1) Corporate Plan / Strategic Plan / Corporate Values / Service Plans
- 2) Self-Assessment of Effectiveness of Internal Audit
- 3) Annual Audit Report / Performance Indicators
- 4) Audit Plan for financial year / risk assessments
- 5) Client Feedback forms
- 6) Audit Manual
- 7) Audit Charter / Audit Strategy / Code of Ethics
- 8) Quality Assurance & Improvement Programme
- 9) Risk Management Policy / Risk Registers
- 10) Annual Governance Statement (for evidence of non-conformance re: CIPFA's Role of Head of Audit & also evidence of how Audit Opinion is reflected through this document)
- 11) Audit Reports (sample) / working files to support (electronic or paper)
- 12) Declarations of Interests for Audit Staff
- 13) Benchmarking Data
- 14) SLA's for outsourced internal audit work
- 15) Evidence of Qualification / Experience of Audit Staff / Job Descriptions
- 16) Organisational Structure